

AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON VULAMEHLO MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Vulamehlo Municipality, which comprise the statement of financial position as at 30 June 2010, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages ... to

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa 2009 (Act No. 12 of 2009) (DoRA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

7. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Vulamehlo Municipality as at 30 June 2010, and its financial performance and its cash flows for the year then ended in accordance with SA Standards of GRAP and in the manner required by the MFMA and DoRA.

Emphasis of matters

8. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Restatement of corresponding figures

9. As disclosed in note 26 to the financial statements, the corresponding figures for 30 June 2009 have been restated as a result of the SA Standards of GRAP conversion entries during 2009-10 financial year in the financial statements of the Vulamehlo Municipality at, and for the year ended, 30 June 2009.

Irregular expenditure

10. As disclosed in note 30 to the financial statements, irregular expenditure to the amount of R10, 039 million was incurred, as proper tender processes had not been followed.

Additional matter

I draw attention to the matter below. My opinion is not modified in respect of this matter:

Unaudited supplementary schedules

11. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited this / these schedule(s) and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

12. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the following key laws and regulations Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), Municipal Regulations (Regulations - GNR/GN), Division of Revenue Act of South Africa 2009 (Act No. 12 of 2009) (DoRA), Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA), Municipal Structures Act of South Africa, 1998 (Act, No. 117 of 1998), and financial management (internal control).

Predetermined objectives

13. Material findings on the report on predetermined objectives, as set out on pages ... to ..., are reported below:

Non-compliance with regulatory and reporting requirements

Municipal Structures Act of South Africa, 1998 (Act, No. 117 of 1998)

Lack of adoption of a performance management system

14. The Vulamehlo Municipality did not adopt before or at the same time as the commencement by the municipality of the process of setting key performance indicators and targets in accordance with its integrated development plan, as required by regulation 8 of Local Government Municipal Planning and Performance Management Regulations.

No comparison against targets and performance in the previous financial year

15. The Vulamehlo Municipality's performance report did not reflect the comparison of targets and performance in the previous financial year, as required by section 46(1)(b) of Municipal Systems Act.

Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003)

Lack of adoption of service delivery and budget implementation plan

16. The Vulamehlo Municipality's mayor did not approve the service delivery and budget implementation plan within 28 days after the approval of the budget, as required by section 53(1)(c)(ii) of the MFMA.

Usefulness of reported performance information

The following criteria were used to assess the usefulness of the planned and reported performance:

- Consistency: Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan, i.e. are the objectives, indicators and targets consistent between planning and reporting documents?
- Relevance: Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?
- Measurability: Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable, and time bound?

The following audit findings relate to the above criteria:

Reasons for major variances between planned and actual reported targets were not explained

17. Adequate explanations for major variances between the planned and the actual reported targets for the objectives were not reported as required in terms of the relevant reporting guidance. In total 100% of the reported targets with major variances had no explanations for those variances.

Reported information not consistent with planned objectives, indicators and targets

18. Municipality has not reported throughout on its performance against predetermined objectives and targets which is consistent with the approved integrated development plan.

Compliance with laws and regulations

Municipal Supply Chain Management Regulations GNR 868 of 30 May 2005

Expenditure was incurred in contravention of, or not in accordance with, applicable legislation resulting in irregular expenditure

19. Contrary to the requirements set out in regulation 43(1) of the Municipal Supply Chain Management Regulations, the municipality made award above R15 000 to a persons whose tax matters have not been declared by the South African revenue Service to be in order.

Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003)

The financial statements were not prepared in accordance with applicable legislation

20. Contrary to the requirements of section 122(1)(a) of the MFMA, municipality made material adjustments to the annual financial statement that was submitted for audit purposes.

INTERNAL CONTROL

I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the MFMA, Municipal Regulations (Regulations – GNR/GN), DoRA, MSA, Municipal Structures Act of South Africa, 1998 (Act No. 117 of 1998), but not for the purpose of expressing an opinion on the effectiveness of internal control.

The matters reported below are limited to the significant deficiencies regarding the basis for the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

Leadership

21. The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Financial and performance management

22. The financial statements and other information to be included in the annual report were not reviewed for completeness and accuracy prior to submission for audit purposes.

OTHER REPORT

Investigation

23. Two municipal staff members have been charged with dishonesty and misconduct, as they failed to hand over monies to the amount of R2 938 and R7 550 for banking purposes. Both employees have subsequently been suspended, and the municipality has initiated disciplinary hearings against them.

Pietermaritzburg

30 November 2010



A U D I T O R - G E N E R A L
S O U T H A F R I C A

Auditing to build public confidence